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PROGRAMME PLANNING AND IMPLEMENTATION

Country and intercountry programmes and projects

FIFTH COUNTRY PROGRAMME FOR BULGARIA

Programme period	Resources	US dollars
1993-1996	Net IPF	2 859 000
	Estimated cost-sharing	-
	Total	2 859 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. Bulgaria is committed to a democratic system and to a market economy. In the transition to these new systems, the country faces considerable obstacles. Decades of central planning, external trade geared towards the former Council for Mutual Economic Assistance (CMEA) bloc (mostly the former Soviet Union) and a large external debt (largely with private banks) have made the economy particularly vulnerable, with serious difficulties being faced in securing the external financing required to meet the costs of this adjustment. Moreover, the national administration, the country's infrastructure, and its human resources all need major reforms to meet the challenges ahead.

2. In February 1991, with support from the International Monetary Fund (IMF), the Government initiated an ambitious reform programme to reverse the deterioration of the economic situation and place the country on a solid path towards a market economy. Among the measures introduced are a unified market-based floating exchange rate, tight monetary and fiscal policies, liberalization of prices and the opening of the economy to external competition. Legislation has been passed to return agricultural land to private owners, to reform the banking system, to protect private property, to de-monopolize industry, transport and trade and to accelerate privatization. Overall, real progress has been made in removing legal barriers for the private sector and state enterprises have been broken up and commercialized to improve their efficiency and to prepare them for privatization.

3. To contain inflation after price liberalization came into force in 1991, the Government has been forced to pursue a policy of reducing real wages. At the end of 1991, real wages were estimated to have declined by 34 per cent from the 1989 level. At the same time, unemployment climbed to over 10 per cent as a result of cuts in public spending, reduced government employment and overall economic difficulties. To contain costs, it was necessary to begin more careful targeting of social security benefits, particularly free health services, to the most vulnerable.

4. In a population of just over 9 million, with a density of 81 persons per square kilometre, two thirds of the population live in urban areas. The annual rate of increase over the period 1985-1990 was close to zero. Life expectancy at birth is 68 years for men and 74 for women. Infant mortality is 14 per thousand live births with a high of 17.9 in rural areas. Maternal deaths are at a relatively high 18.7 per 100,000 births. Over 76 per cent of females marry below the age of 25. Almost 35 per cent of the population live in high health-risk areas that have serious environmental problems caused by pollution from both industrial and urban waste.

5. Adult literacy is 90 per cent with a mean of seven years of schooling: 59 per cent of primary school graduates enrol in secondary education and 26 per cent of them proceed to tertiary education. Science graduates are

40 per cent of the total. Women's enrolment in secondary and tertiary education is higher than that of men although their mean years of schooling are only 83 per cent of that of men. They represent 46 per cent of the labour force, but need to progress further to reach parity with men in skilled professions and higher managerial positions. Of the total labour force, 16.5 per cent are engaged in agriculture, 37.9 per cent in industry and 45.6 per cent in the service sector.

B. National development objectives and strategies

6. The national development strategy is to move to a full market economy. It focuses on restoring the ability to repay foreign debts; liberalizing, reforming and de-monopolizing trade policies and institutions; privatizing property, including agricultural land, services, and industry; developing an advanced banking sector; restructuring enterprises in the state sector; promoting energy efficiency and environmental protection; and establishing a sustainable social security system.

7. There is a great deal to be accomplished by the structural reform programme. Its implementation faces many internal and external constraints:

(a) Industry. Management and system reforms are needed to enable industry to compete in the world market;

(b) Energy. An energy-intensive strategy, based on cheap Soviet energy, cannot be sustained and progressive energy price increases are envisaged;

(c) Agriculture. Implementing land reform is constrained by the need to strengthen institutional infrastructure required to support producers;

(d) Pollution. Tackling serious industrial and urban pollution problems will depend both on new technology and the economic costs involved;

(e) Banking. Modernizing and transforming the National Bank of Bulgaria and the banking system into market-oriented institutions is required;

(f) Social security. The reform of the social security system aims at protecting the most vulnerable groups of the population;

(g) Tourism. In view of the drastic drop in tourism revenues, the tourism sector needs to be restructured, modernized and made more competitive;

(h) Infrastructure. Infrastructure improvements, vital to economic recovery and a market economy, are limited by budgetary constraints;

(i) Human resource development. A non-formal education focus is required, especially management training and technical skills development.

II. EXTERNAL COOPERATION

A. Role of external cooperation

8. Since the democratization process began in 1990, external assistance to Bulgaria has increased significantly from previous low levels. IMF, the World Bank, the European Community, the Group of 24, the United States and various European countries are now providing cooperation. IMF assistance has focused on the formulation of financial, monetary and fiscal policies and on transforming the National Bank of Bulgaria into a full central bank. The World Bank provided two loans for structural adjustment of $100 million each in 1991 and 1992. A total of $600 million was pledged by the G-24 countries for balance-of-payments support in addition to $400 million committed by the European Community to support the comprehensive adjustment and reform programme. The United States Agency for International Development (USAID) is supporting democratic initiatives and economic restructuring, and providing $34 million of food aid. Assistance from other countries covers a wide range of activities. In the latter half of the fourth cycle, in the context of rapidly changing national priorities, UNDP concentrated on bringing ongoing projects to a satisfactory conclusion without entering into major new commitments.

9. The Government has decided that external assistance will be focused on supporting the democratization process, the transition to a market economy and the promotion of private sector development. Capital assistance needs are to be complemented with technical cooperation to build national capacity to transform and manage public and private sector institutions and sustain the process of transformation to a democratic system and an open-market economy.

B. Aid coordination arrangements

10. The Foreign Finance Division has been established in the Ministry of Finance to coordinate capital assistance. The External Economic Relations Department of the Ministry of Foreign Affairs, however, is responsible for the coordination of technical cooperation with United Nations specialized agencies and other donors. There is scope for the United Nations Development Programme (UNDP) to play a role in enhancing the linkages between capital assistance and technical cooperation and promoting the development of national capacity to draw maximum benefits from external assistance.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

11. UNDP resources for the fourth cycle totalled $3.5 million, including a third-cycle carry-over of $248,000, of which approximately 80 per cent has been utilized. Priority was given to energy, science and technology, industry, technological advances of production and the development of human

resources. These priorities reflect those stated in the five-year plan for development.

12. The mid-term programme review carried out in 1989 established that projects were being efficiently executed. In spite of later changes in development priorities, the projects have had a positive impact in upgrading the technological skills of a considerable number of national experts. The know-how and technologies acquired through UNDP cooperation has made them more adaptive to market economy conditions and will enable them to contribute to the development of national scientific and technological capacity during the transition period, to the rapid restructuring of various sectors and their adaptation to market requirements. Rapid changes in the political and economic situation in the country initially led to delays in formulating a strategy for the fifth country programme, requiring a one-year extension of the fourth country programme.

B. Proposals for UNDP cooperation

1. Preparatory process

13. The fifth country programme was formulated by the Government in consultation with several missions mounted by UNDP. The Government has assessed its technical cooperation needs in parallel with those for capital assistance to support the democratization process and the transition to a market economy.

2. Strategy for UNDP cooperation

14. Bulgaria has highly qualified technical personnel to enable it to tackle the scientific and technological aspects of development. However, there is a lack of expertise and experience in operating a market economy in a democratic environment. Therefore, priority will be assigned to human resource development and institutional reform through the acquisition of technology and know-how for the several reform initiatives outlined above. UNDP technical cooperation is seen as complementary to the capital assistance provided by the multilateral financial institutions.

15. The areas proposed for UNDP cooperation have been selected with the intent of translating UNDP global priorities into support for the transition that is under way. The common denominator of the programme will be human resource development and the enhancement of national capacity to create an environment conducive to a democratic system and a market economy. The criteria that will be used to target UNDP cooperation will be its multiplier effect and its impact on the national development process. Given its limited resources, UNDP cooperation will be sought to mobilize additional resources for the programme.

3. Proposed UNDP cooperation in selected areas of concentration

16. The mid-term review of the fourth country programme identified environmental protection and management development as priority areas for UNDP cooperation and these areas have been selected for continued support in the fifth cycle. In addition, agriculture and private sector development have been identified as vital areas for UNDP support in the process of reform and economic recovery. These areas were selected also on the basis of UNDP's demonstrated comparative advantage in technical cooperation in institution-building, management development and in national capacity-building and because these areas relate directly to the UNDP regional programme for Europe, in which Bulgaria actively participates.

Environmental protection programme

17. Environmental protection in general, and the establishment of the necessary conditions for environmentally sound development in particular, require special attention during the transition period to a market economy. Current economic and financial constraints, however, as well as functional changes in the relevant national institutions and economic entities, have seriously affected the national capacity to tackle environmental issues.

18. The Global Environment Facility (GEF) initiative for ecological management in the Danube River basin and in the Black Sea area is expected to provide technical cooperation to improve the national capacity to monitor, manage and rehabilitate the environment in northern Bulgaria and in the Black Sea area. It is also expected that a system to monitor and control the environment will be established with the assistance of the European Economic Community. Southern Bulgaria is outside the scope of these initiatives and programmes and, therefore, UNDP cooperation is being sought to develop a programme and an investment strategy to manage and rehabilitate the environment in the southern region. The programme will aim at controlling the pollution of rivers and air emissions and at rehabilitating the soil through a series of pre-investment studies and pilot projects. The programme will be closely coordinated with GEF-funded activities in the north and with the environmental rehabilitation programme of the UNDP regional programme for Europe. The criteria of success for the programme will be the extent of follow-up investment financing.

Programme to support private sector development

19. The emerging private sector operates in an information and administrative environment that is inadequate since the existing system was designed to serve the decision-making process of state enterprises in a centrally planned economy with limited private sector access to information required to take strategic decisions on technology, market orientation, investment policies and potential domestic or foreign partners. UNDP cooperation is sought to develop a privatization strategy, to strengthen the Privatization Agency, to acquire world-wide data on property transfer systems, to establish legal and

organizational frameworks for private sector activities and to introduce appropriate accounting systems. The programme is intended to coordinate and direct current information systems to serve the needs of small- and medium-size businesses, to train entrepreneurs on how to take advantage of such systems and to contribute to the establishment of a national business network. An operational system that provides timely information to the private sector will be the principal indicator of success of the programme.

20. UNDP cooperation is also being sought to develop a system for the protection of intellectual property. The establishment of a reliable system to protect intellectual property is considered an indispensable precondition for foreign investment flows and for technology transfers. The programme will be co-financed by the Institute for Innovations and will be implemented by the World Intellectual Property Organization (WIPO).

21. An efficient telecommunications system is an essential support for a dynamic private sector active in international markets and for integration into the world economy. Capital assistance from the World Bank is being considered for the modernization of the sector and technical cooperation is sought from UNDP for the transfer of telecommunications technology to complement such an investment.

Programme for management development

22. Changing management structures and techniques is a priority during the transition period. The focus is on the management of the privatization process, reform of the education system, establishment of a sustainable social security system, and development of regional and local government policies and management systems. To achieve its long-term objectives, the country must have a capacity to train and retrain managerial staff at all levels and in all sectors.

23. UNDP cooperation is being sought to assess the capacity of existing management training institutions and the needs of the most valuable ones among them as well as to explore ways to transfer managerial know-how and techniques. Wider application of advanced information technologies in policy development and staff training is considered of crucial importance. The immediate needs in management development include direct assistance for the modernization and reform of the administration and the decision-making processes at various levels, and the improvement of the technical and information capacity of the central administration. To meet these needs, expertise and consultants will be required to reform national institutions, to transfer managerial techniques and know-how, and to train local managers and trainers. A new dynamism in these institutions with a significantly increased output of managers trained in business methods and techniques will indicate success in the programme.

Programme for restructuring agricultural production and the food industry

24. Agriculture and the food-processing industries have been traditional areas of comparative advantage for Bulgaria. Cooperation with the World Bank and the European Economic Community for restructuring these sectors focuses on a range of interdependent issues, i.e., land reform, development of private farms, restructuring and privatization of the food-processing industry, and restructuring of the banking system to enable it to service both sectors. It is essential to diversify agricultural production and introduce international quality standards to be able to meet a growing domestic demand for high quality food and to strengthen the export potential of the sector. Full utilization of available resources and favourable natural conditions and diversification are crucial to achieve this end.

25. UNDP cooperation is being sought to address these areas. The programme will concentrate on pre-feasibility studies, market research, transfer of technology and pilot projects (small- and medium-size processing enterprises, farms, quality control laboratories) that would support the development and marketing of new products.

C. Assistance outside the main country programme areas

26. In view of the limited resources available, every effort will be made to utilize them only for the main programme areas.

D. Implementation and management arrangements

27. In the fifth cycle, the national execution modality will be actively pursued to enhance national capacity to handle technical cooperation and to manage national development. The expertise of the relevant United Nations specialized agencies will be called upon. To achieve greater impact and flexibility in the use of limited UNDP resources and to mobilize additional funds, the programme approach modality will be emphasized in each of the four programme areas outlined above. Close linkages between the national and regional UNDP programmes will be developed, particularly in the areas of the environment, private sector development and national capacity-building. Every effort will be made to make maximum use of the potential of the Transfer of Knowledge through Expatriate Nationals (TOKTEN), the United Nations International Short-Term Advisory Resources (UNISTAR) and the United Nations Volunteers (UNV) programmes and to cooperate closely with the Management Development Programme.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	$	$
Carry-over from fourth cycle IPF	540 000	
Fifth cycle IPF	2 837 000	
Estimated 1992 expenditure	(518 000)	
Subtotal IPF		2 859 000
Project cost-sharing (Government)	-	
Project cost-sharing (third-party)	-	
Programme cost-sharing	-	
Subtotal cost-sharing		-
Total		2 859 000

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	Thousands of dollars			Percentage of total resources
	IPF	Cost-sharing	Total	
Environmental protection	543 000	-	543 000	19.0
Private sector development	771 000	-	771 000	27.0
Management development	571 000	-	571 000	20.0
Agricultural production and food industry restructuring	488 000	-	488 000	17.0
Subtotal	2 373 000	-	2 373 000	
Unprogrammed reserve	486 000	-	486 000	17.0
TOTAL	2 859 000	-	2 859 000	100.0

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III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES USED IN AREAS OF CONCENTRATION

	Thousands of dollars	
A. UNDP-administered funds		
SPR	-	
UNCDF	-	
UNSO	-	
UNIFEM	-	
UNRFNRE	-	
UNFSTD	-	
Subtotal		-
B. Other United Nations resources		
JCGP participating agencies		
UNFPA	-	
UNICEF	-	
WFP	-	
IFAD	-	
Other United Nations agencies (non-UNDP financed)	-	
Global Environmental Facility	-	
Subtotal		-
Total non-core and other United Nations resources		-
C. Non-United Nations resources		-
TOTAL		-

Annex II

PROGRAMME MATRIX

Areas of concentration	Area of focus: Poverty eradication and grass-roots participation	Environment and natural resources management	Management development	TCDC	Transfer and adaptation of technology	WID
Environmental protection	*	***	*	*	*	*
Private sector development			*	*	**	*
Management development	*	*	***	*	*	*
Agricultural production and food industry restructuring	*		*	*	**	*